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UNCLAS SECTION 01 OF 02 SANAA 002785

SIPDIS

STATE FOR NEA/ARP, EB/IPR, EB/TRD  
STATE PLEASE PASS TO USTR FOR J.BUNTIN  
STATE ALSO FOR USAID ANE

E.O. 12958: N/A

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SUBJECT: Services in Yemen: Legally Open For Investment

REF: SANAA 1763

1. Summary and comment: Insurance, telecommunications and the banking industry are all possible fields for American investment in Yemen. The insurance industry is steadily growing and open to investment. With only 1.3 million fixed lines, potential exists for the telecommunications services to expand. The banking industry is likely the least hospitable to foreign investors because Yemen's commercial courts are not able to ensure a sound investment climate. Yemen's three main service industries are still plagued by government inefficiency and lack of qualified employees to carry out government's regulatory role. End summary and comment.

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Insurance Industry: Open, but Few Are Willing to Risk It  
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2. Insurance enterprises are subject to the Supervision and Control of Insurance Companies Law 37 of 1992. In 1997, Law 9 and Law 22 for Commercial Companies amended the law in accordance with the 1995 economic reform package. Twelve insurance companies operate in Yemen and a thirteenth is applying for a license to issue health insurance. Insurance companies must have 100 million Riyals (550,000 USD) to begin operation. Current amendments under consideration would raise the minimum to 400 million Riyals (2.2 million USD). The most common type of insurance in Yemen is life and fire. According to the Ministry of Industry and Trade (MIT) officials who regulate the insurance, the industry is steadily growing in Yemen.

3. A ministerial decision by MIT can suspend a company's activities for less than a year if the company fails to show their records and documents for review. The company can appeal to the court in order to plea against the suspension decision, although Post is unaware of any suspension orders issued by MIT. MIT also reviews annual reports of all insurance companies, although with only three inspectors their capacity is limited. For an insurance company to open, the company must deposit ten percent of the capital with MIT, an exception may be granted if the company seeks to invest its capital outside of the ministry. Foreign companies are allowed to own up to 25 percent of a local insurance company, although presently foreign investors only own about ten percent of any insurance company operating in Yemen.

4. A draft law at the ministry would allow foreign companies to own up to 49 percent of an insurance company. According to existing laws, foreign companies are free to operate in the reinsurance sector, where companies act as a guarantee for smaller insurance companies. No foreign companies are presently in the reinsurance business. According to Law 37, a majority of the companies' board of directors should be Yemeni nationals. Yemeni citizens cannot directly or indirectly insure any of their locally based property in any company outside the country, although the Minister of Industry and Trade may grant an exception.

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Telecommunications: Potential For Growth  
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5. With 1.3 million fixed phone lines and 500,000 internet users the telecommunications industry in Yemen is steadily expanding. Teleyemen, the state monopoly operated by France Telecom, still controls domestic fixed and international lines and is investing in CDMA technology to expand rural use. Two mobile operators exist in Yemen, and Yemen plans to issue a tender for a third license for a company this year, reftel. Two state-run internet companies operate, and the ROYG is working to expand internet usage. Foreign investment is allowed and occurs only in partnership with the government as in the case of the French operating alongside Teleyemen to operate. To date, there are no plans to break-up the state monopoly.

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Banks in Yemen: Serving the Rich  
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6. Eighteen banks currently operate in Yemen including the Central Bank of Yemen (CBY), which oversees banking regulation and currency exchange. Of the eighteen banks, two are fully state-owned and two are partially state-owned. Nine are private

domestic banks (including four Islamic banks), and four are private foreign banks. The largest bank operating in Yemen is the state-owned National Bank of Yemen, which is considered a prime candidate for privatization. The three other state-owned banks are also being considered for unification under a World Bank reform program, with the Yemen Bank for Reconstruction and Development likely to be next on the list. While there is much talk about banking privatization, no progress has been made in the past few years.

17. The average Yemeni does not have a bank account and relies on the Hawala (informal) system to transfer money to friends and relatives. Central Bank officials estimate that only three percent of Yemenis have bank accounts and due to current economic constraints, rapid growth is unlikely. Typically, Yemen's banks do not handle large transfers or have a wide customer base. Due to the limited nature of domestic banks capabilities, small businessmen and women have difficulty obtaining loans if they do not know the owners of banks personally. Banks are reluctant to loan money to those they do not know because they cannot resort to commercial courts to retrieve bad loans. The locally owned banks cannot compete against the larger international or state-owned banks because they do not have the high-rate of capitalization to undergo such projects. In the mid-90s, Yemen's commercial banks suffered from a large number of under performing loans, but an effort to reform the banking system has reduced the number of bad loans.

18. American banking in Yemen ended with the closure of Citibank in 1984. Today, the only large international banks operating in Yemen are Arab Bank and Credit Agricole S.A. (The two other foreign banks Rafadeen Bank (Iraq) and Gulf Bank). Commercial Banks are allowed to purchase foreign exchange domestically from customers and tourists and to hold a percentage of foreign exchange purchased to effect import payments on behalf of the Central Bank. There are no taxes or subsidies on purchases or sales of foreign exchange. Under Yemen's Investment Law, investors are permitted to hold foreign-currency accounts in Yemeni banks. Commercial banks are authorized to open letters of credit for the importation of most goods, provided that such imports are self financing; these banks may accept licenses issued by MIT without approval from the central bank.

19. Banks are subject to the Central Bank of Yemen organizing law, the Commercial Banks law and the Commercial Companies Law. One group or investor may borrow fifteen percent of a bank's capital and twenty five percent of the banks assets may be liquid at any one time. Out of concern for the lack of capitalization, the Central Bank Governor is proposing increasing the rate of capitalization to Six Billion Riyals -- approximately 30 million USD from 2 Billion Riyals or 10 million USD. The Central Bank of Yemen does not insure individual's deposits in the banks they oversee.

110. Commercial bankers complain that the Central Bank is more interested in maintaining a stable Riyal and does not promote open banking. One example is that the highest currency is the 1, 000 Riyal note (5.50 USD), harming cash flows and limiting the ATM machine capacity. Yemen's Banking regulations also allow board of directors to take advantage of the bank's facilitations; use deposits and shares as long as they are decision makers. Confidence in the banking system is limited, and it is common for profits to be used to replenish deficits incurred by bad debts.

111. Commercial bankers complain that the Central Bank is more interested in maintaining a stable Riyal than working to expand Yemen's banking capabilities. The largest bill the Central Bank authorizes is the 1,000 Riyal note (5.50 USD), which harms cash flow and ATM capacity. Confidence in the banking system is limited, and it is common for profits to be used to replenish deficits incurred by bad debts. One possible area for USG assistance would be to strengthen the Central Bank's regulatory capacity and work to encourage policies that promote the stability and integrity of banking, such as establishing a deposit insurance.